

Message Text

LIMITED OFFICIAL USE

PAGE 01 TRIPOL 00021 071328Z

50

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-06 NEA-09 ISO-00 AEC-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00

FPC-01 H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

FRB-01 /108 W

----- 079628

P R 071035Z JAN 75

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC PRIORITY 1847

INFO AMEMBASSY BEIRUT

AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY LAGOS

AMEMBASSY ROME

AMEMBASSY TEHRAN

LIMITED OFFICIAL USE TRIPOLI 0021

E.O. 11652: N/A

TAGS: EALR ENRG

SUBJECT: LIBYAN MOVES TO MAKE ITS OIL MORE COMPETITIVE
WITH GULF

1. SUMMARY: LIBYA HAS CONSIDERABLY REDUCED BUY-BACK
PRICE FOR ITS GOVERNMENT OWNED CRUDE, BUT RAISED ITS
TAX RATE FROM 60 TO 65 PERCENT FOR COMPANIES. TAKEN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TRIPOL 00021 071328Z

TOGETHER WITH PRODUCTION CUTS WHICH INCREASE UNIT COST

OF PRODUCING CRUDE IN LIBYA, ONE EFFECT OF MOVES IS TO REDUCE DIFFERENTIAL BETWEEN PRICE PAID BY COMPANIES OPERATING IN LIBYA AND OUTSIDERS BUYING GOVERNMENT OIL. FROM CONSUMER'S POINT OF VIEW CHANGES IN PRICE STRUCTURE TEND TO CANCEL EACH OTHER OUT, AND THERE SHOULD BE NO SIGNIFICANT CHANGE IN PRICE OF LIBYAN OIL TO CUSTOMERS IN EUROPE AND U.S. LIBYAN INTENTION SEEMS TO BE TO MAKE LIBYAN CRUDE MORE COMPETITIVE VIS-A-VIS THE GULF. END SUMMARY.

2. LIBYA REDUCING PRICE OF ITS GOVERNMENT OIL AND SIMULTANEOUSLY INCREASING ITS TAX RATE FOR 1975 PRICING STRUCTURE, ACCORDING TO INDUSTRY SOURCES HERE. MARGIN BETWEEN ITS GOVERNMENT OIL AND NET ACQUISITION COST TO OPERATING COMPANIES HAS BEEN REDUCED TO 14 CENTS PER BARREL. OILMEN HERE CONSIDER THIS MARGIN UNCOMFORTABLY CLOSE TO THE LOSS LINE AND SAY THAT FURTHER PRODUCTION CUTS WITH FIXED COSTS REMAINING CONSTANT COULD PUSH THEM OVER LOSS LINE.

3. PRODUCTION CUTS TO DATE HAVE ALREADY INCREASED UNIT COSTS GREATLY OVER PAST QUARTER--FROM ESTIMATED 47 CENTS PER BARREL TO ESTIMATED 80 CENTS AND HAVE HELPED REDUCE MARGIN BETWEEN NET ACQUISITION COST PAID BY OPERATING COMPANIES AND PRICES AVAILABLE TO THE INDEPENDENT BUYER.

4. THE FOLLOWING TABLE COMPARES PRICE ARRANGEMENTS FOR THE FINAL QUARTER OF 1974 WITH THE NEW STRUCTURE WHICH HAS BEEN PUT INTO EFFECT:

	FINAL QUARTER 1974	1975
POST PRICE	15.678	15.678
MINUS ROYALTY (16.67	2.614	2.614
PERCENT POSTED PRICE)		
MINUS PRODUCTION COST	.470 (A)	.800 (B)
-----	-----	
TAXABLE INCOME	12.594	12.264
TIMES TAX RATE	60 PERCENT	65 PERCENT
-----	-----	

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TRIPOL 00021 071328Z

INCOME TAX	7.556	7.972
ROYALTY	2.614	2.614
SUPPLEMENTAL	.181	.181
-----	-----	
GOVT TAKE	10.351	10.767
PLUS PRODUCTION		
COST	.470	.800
-----	-----	

COMPANY COST		
OF EQUITY OIL	10.821	11.567
NET ACQUISITION PRICE THUS BECOMES:		
BUY-BACK	12.50	11.86
AT 51 PERCENT	6.375	6.049
EQUITY	10.82	11.57
AT 49 PERCENT	5.30	5.67

ACQUISITION COST	11.68	11.72

PRICE DIFFERENTIAL BETWEEN NET ACQUISITION COST TO
OPERATING COMPANIES AND COST OF BUY-BACK OIL:

BUY-BACK	12.50	11.86
ACQUISITION COST	11.68	11.72

DIFFERENTIAL	.82	.14

- (A) ACTUAL PRODUCTION COST ESTIMATES ON 1 OCTOBER 1974.
(B) ACTUAL PRODUCTION COST ESTIMATES ON 1 JANUARY 1975.

4. WITH MARGINS SO THIN QUESTION ARISES WHETHER
OPERATING COMPANIES WILL CONTINUE TO PRODUCE AND
BUY CRUDE OIL IN LIBYA. WE BELIEVE THEY WILL
BECAUSE OFF-SHORE (OUTSIDE LIBYA) FACTORS, CHIEFLY
USG DEPLETION ALLOWANCES AND TAX CREDITS, CONTINUE
TO MAKE COST-PLUS-TAX ARRANGEMENT CONSIDERABLY MORE
FAVORABLY THAN THAT AVAILABLE TO INDEPENDENT CRUDE BUYERS.

5. BY OUR CALCULATIONS, NET EFFECT OF THESE CHANGES
ON PRICE TO CONSUMERS IN EUROPE AND U.S. WILL BE
NEGLECTIBLE. INTENTION SEEMS TO BE TO IMPROVE
COMPETITIVE POSITION OF LIBYAN CRUDE, WHICH HAS
BEEN UNDERSOLD BY GULF PRODUCERS. WE DO NOT HAVE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 TRIPOL 00021 071328Z

ENOUGH
DATA AT HAND TO SAY WHETHER IT WILL HAVE
THIS EFFECT IN PRACTICE.
STEIN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, PETROLEUM PRODUCTION, PRICES, TAX RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 07 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TRIPOL00021
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750006-0152
From: TRIPOLI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750171/aaaacknt.tel
Line Count: 158
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 10 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUN 2003 by ElyME>; APPROVED <04 SEP 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LIBYAN MOVES TO MAKE ITS OIL MORE COMPETITIVE WITH GULF
TAGS: EALR, ENRG, LY, XF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006